

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
December 17, 2004
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Dr. Keith Meredith, Chairperson of the ASRS Board, called the meeting to order at 8:38 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Dr. Keith Meredith, Chairperson
Mr. Karl Polen, Vice Chairperson
Ms. Charlotte Borchert
Mr. Jim Bruner
Mr. Jaime Gutierrez
Ms. Anne Mariucci
Mr. Michael Townsend
Mr. Lawrence Trachtenberg
Mr. Steven Zeman

A quorum was present for the purpose of conducting business.

2. Approval of the Consent Agenda

Prior to making the motion, Ms. Charlotte Borchert excused herself from voting on item 2C due to a potential conflict of interest.

Motion: Ms. Charlotte Borchert moved to approve items 2A - refunds, death benefits, and system transfers,

And

2B - Approve the minutes of the November 19, 2004, regular meeting of the ASRS Board,

And

2D - Deny Darcy Forst's motion for rehearing.

Mr. Karl Polen seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstention, and 1 excused, the motion was approved.

Motion: Mr. Karl Polen moved to approve item 2C the applications and agreements with the following employers:

- League of Arizona Cities & Towns
- Northern Arizona Council of Governments (NACOG)
- Maricopa County Special Health Care District (effective January 1, 2005)

Mr. Jaime Gutierrez seconded the motion.

By a vote of 7 in favor, 0 opposed, 1 abstention, and 1 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding the Notice of Proposed Rulemaking for Article 5, Purchasing Service Credit.

Ms. Nancy Johnson, ASRS Rules Coordinator, stated that the proposed Rulemaking for Purchasing Service Credit addresses the categories of eligible service, required documentation, procedure for requests, restrictions, methods of purchasing, interest charges for payroll deduction authorization, how the cost of purchasing service credit is calculated and the effect of termination or death on service purchases.

The ASRS held informal public meetings for public input and comments. The drafts were posted in the Rules Section of the ASRS Web-site.

Motion: Mr. Jaime Gutierrez moved that the Board approve the Notice of Proposed Rulemaking for Article 5, Purchasing Service Credit.

Mr. Steven Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstention, and 1 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the Review and Status Update of the 2003/2004/2005 Surplus Deficit and Contribution Rate Plan of Action

Mr. Lawrence Trachtenberg arrived at 8:55 a.m.

Mr. Paul Matson, Director, presented a plan of action regarding the contribution rate changes. Mr. Matson highlighted the key points.

Phase I consist of short-term or large financial impact and required immediate action. Phase II consisted of short-term or modest financial impact and required short-term action. Phase III consisted of long-term or small/residual financial impact with medium-term action, and plan review and cultural change.

Phase I

- Creation of Equity and Efficiency Review Team (EERT)
- Recommendation from EERT, Management, Staff, Trustees, Actuary
- Service Purchase Legislation, Proposed and Implemented change from Normal Cost to Actuarial Present Value
- Increase Interest Rate on PDAs from 0% to 8%
- Correction of PBI Reserve Account
- Early Retirement Incentives Limited
- LTD Legislative Changes Implemented
- LTD Investment Changes Implemented
- Actual Investment Return for 2004

Phase II

Planning

- Review Phase I Plan of Action

Actions

- Reinstatement of Equity and Efficiency Review Team
- Continued Engagement
- Account Balance Accrual Rate Change (4%)
- Current Legislative Review Process
- Pop Ups
- AHCCCS

Phase III

- Enhanced “Program & Benefit” Cost Dissemination Initiative
- Culture Change: Vision & Values
- Total Plan Review
- Remaining Program Changes
- Remaining Methodological Changes
- Asset Allocation Review
- Horizon Issues:
 - System Design
 - Health Insurance Design

Phase I is 95% completed. Phase II is 75% completed. Items still outstanding include; the 4% implementation, further program reviews, and AHCCCS legislation. Phase III is 60% completed. All three Phases will be completed by approximately the end of 2005.

Mr. Matson presented the following table to the Board.

Action	Reduction in Total Contribution Rate*	Annual Reduction in Total Contribution Amount	Present Value of Savings on Actuarial Valuation Basis	Present Value of Savings on Open Group Basis
Service Purchase				
Change from normal cost to actuarial present value	.60%	\$43.8	\$338.9	\$1,217.6
Increase interest rate on PDAs from 0% to 8%	.20%	\$14.6	\$177.4	\$262.2
Total Service Purchase Savings	.80%	\$58.4	\$516.3	\$1,479.3
Decrease interest credited on withdrawn contributions from 8% to 4%	.30%	\$21.9	\$191.3	\$542.0
Early Retirement Incentives	.22%	\$16.1	\$195.2	\$289.1
Correction of PBI Reserve	.05%	\$3.5	\$42.0	\$42.0
LTD Legislative changes	.03%	\$ 2.2	\$26.6	\$39.5
Total	1.40%	\$102.1	\$971.4	\$2,391.9

**These effects on the total contribution rate are multiplied by current payroll to give annual savings amounts in the next column. The annual savings amounts are then converted to the present values shown in the last two columns. On the Actuarial Valuation Basis, the savings from basing service purchases on actuarial present value is a reduction in future service liabilities. For the reduction in the interest crediting rate, the savings arise from reductions in future service and past service liabilities. Other Actuarial Valuation Basis savings are reductions to past service liabilities, i.e., capitalizations of the annual savings amounts over 30 years. On the open group basis, present values are generally perpetuities that anticipate the savings effect on current and future members. The exception is the PBI change, which is a one-time correction. Some of these changes will not be reflected in their entirety in the 2004 valuation report, but will be captured in future reports as actuarial gains. For example, the Plan valuation contains no assumption on Payroll Deduction Agreements (PDAs), so the absence of interest charges in the past has been reflected as an actuarial loss. The change to 8% interest charges will end the losses and eventually reduce the total contribution rate by .20%.

Mr. Matson stated the table summarizes the actions taken by the ASRS Board and staff during the last two years. The Board has reduced the expected increases in contribution rates by 1.4%. The Board has saved over \$102 million a year in future contribution rates. As a result, the ASRS Board will save \$971 million in future liabilities, based on current employee membership and will save \$2.391 billion in future liabilities based on both current and future employee membership. By implementing these actions, the ASRS is saving a total of \$2.391 billion dollars for the life of the system.

The ASRS is currently working on the following:

- Implementation of LTD Investment Changes
- Implementation of Legislative Initiatives and Notifications
- Plan Design Review
- Asset Allocation Review
- Horizon Issue Research and Conclusions
- Reinforcement of Vision & Culture
- Implementation of Above While Maintaining Other Initiatives:
 - *IT Program
 - *Budget
 - *Strategic Plan
 - *Service Maintenance
 - *Service Remedies
 - *Others

Mr. Polen indicated that while the Plan is approximately actuarially fully funded, the market value of the investments are significantly less than the actuarial value of the liabilities. As a result, the ASRS should consider writing a White Paper for the plan similar to the “*White Paper*” for the System.

Mr. Polen requests that ASRS staff work with top-level policy makers to notify them of rising contribution rates.

Mr. Gutierrez stated that staff will communicate with membership during the Director’s Outreach Forums in 2005.

Dr. Keith Meredith suggested that in addition to the Outreach Forums the ASRS should consider notifying policy makers and ASRS members through the newsletter.

5. Presentation, Discussion and Appropriate Action with Respect to the Review of the 2004 Goals of the ASRS

The following high level goals that were taken from the 2003 Board Performance Evaluation, Strategic Analysis Session, and periodic Board decisions or comments. Listed are the goals and status of each item:

2004 ASRS Goals Review

Issue Item	Status
Governance Handbook	Completed. Concepts Implemented.
Vision and Values	Completed. Disseminated, Continued Cultural Integration Required.
Strategic Planning	Completed. Focused, Engaging Single Meeting Occurred in Flagstaff. Priorities Understood.
Actuarial Audits	Completed. Follow Up Study Due February, 2005.
Long Term Care Review	Review Completed. No Further Action Required.
State Requirement for Budget, Personnel, Procurement	Review Completed. No Further Action Required.
Trustee Terms	Review Completed. No Further Action Required.
Director's Outreach Forum	Completed. Full Implementation in 2005.
Actuarial Status Analysis - Program Reviews - Contribution Rate Reviews	Significant Accomplishments as Planned. Contribution rate increase reduced by 1.4%. Present value of savings from \$1B – \$2.4B.
Health Insurance	Legislative Council RFP, AHCCCS Legislation, Ongoing Research.
Hybrid Defined Contribution System (“the System”)	Research in Process. Expected plan due 2005.
Securities Litigation Policy and Infrastructure	Attorney General Decision Made. Draft Infrastructure Policy Completed. Board Decision Pending.
Supplemental Retirement Savings Plan	Coordination with PSPRS, Deferred Compensation Board, ADOA. Substantially Complete. Board Recommendation by 2Q05.
Deferred Retirement Option Plan (DROP)	Coordination with ADOA, Others Ongoing. Board Recommendation during 2005.

6. Presentation, Discussion and Appropriate Action with Respect to the 2005 Goals of the ASRS

Mr. Matson provided the ASRS Board with the proposed list of 2005 Macro-level Goals of the ASRS, separated into three categories: major programs, capabilities, and service levels.

Major Programs

Issue Area	Key Goals	Success Criteria
Agency Governance	<ul style="list-style-type: none"> • Handbook Requirements Achieved • Efficient Governance Structure Enabled 	<ul style="list-style-type: none"> ➤ Governance Handbook Requirements Achieved ➤ Modify handbook to Reflect Recommend Changes ➤ Trustee's Discretion
Strategic Plan	<ul style="list-style-type: none"> • Update • Modify 	<ul style="list-style-type: none"> ➤ Strategic Plan is Updated and Modified, Including Revised Goals ➤ Consideration and Analysis is Provided for Findings from the Auditor General's Review
Defined Benefit Plan Review	<ul style="list-style-type: none"> • Mitigate Future Contribution Rate Increases 	<ul style="list-style-type: none"> ➤ Presentation to The Board on Actuarial or Program Modifications that Further Mitigate Contribution Rate Increases
Hybrid "System" (the "System")	<ul style="list-style-type: none"> • Plan of Action to Reduce Underfunding Risks 	<ul style="list-style-type: none"> ➤ Plan Developed ➤ Board Approves ➤ Staff Moves Towards Implementation ➤ Implementation Not Required
Long Term Disability Program	<ul style="list-style-type: none"> • Review Actuarial Methodology Per Audit • Recommend / Implement Prudent Changes 	<ul style="list-style-type: none"> ➤ Recommendations Made to ORC and to Board ➤ Board Accepts Addresses Current Method vs. Audit Issues
Health Insurance	<ul style="list-style-type: none"> • Determine Future Options 	<ul style="list-style-type: none"> ➤ Further Analysis Conducted ➤ Recommended Changes Determined
Supplemental Retirement Savings Plan	<ul style="list-style-type: none"> • Coordinate State Programs • Determine Investment Options • Determine Structural Parameters • Determine Roll Out 	<ul style="list-style-type: none"> ➤ Revised Plan Document Presented to Board ➤ Plan Accepted by Board ➤ Roll Out Occurs if Prudent
Deferred Retirement Option Plan (DROP)	<ul style="list-style-type: none"> • Review Legal Issues • Review Affect on Contribution Rates • Determine if Roll Out is Prudent 	<ul style="list-style-type: none"> ➤ Decision on Program Direction

Capabilities

Issue Area	Key Goals	Success Criteria
Class Action Litigation	<ul style="list-style-type: none"> • Implement Infrastructure 	<ul style="list-style-type: none"> ➤ Board Decision ➤ Required Infrastructure Implemented
Real Estate Investment Program	<ul style="list-style-type: none"> • Initial Funding of Four Core Strategies 	<ul style="list-style-type: none"> ➤ Required Infrastructure Implemented ➤ Initial Four Phases of Funding Occurs
Investment Strategic Analysis Session	<ul style="list-style-type: none"> • Engage Trustees and Staff on Current Issues 	<ul style="list-style-type: none"> ➤ Session Occurs ➤ Topics Covered: Portable Alpha, New Asset Classes, Manager Selection, Other ➤ Appropriate Decisions Made
Securities Lending	<ul style="list-style-type: none"> • Review and Modify if Appropriate 	<ul style="list-style-type: none"> ➤ Analysis Completed ➤ Recommended Changes Implemented
Investment Business Continuation Plan	<ul style="list-style-type: none"> • Live Offsite Test 	<ul style="list-style-type: none"> ➤ Plan Tested, Documented, Reviewed
Agency Business Continuation Plan	<ul style="list-style-type: none"> • Execute Alert Roster • Live Offsite Test of Call Center, PERIS, Procurement, Workflow Applications, Email, Financial Management, Document Imaging, Employer Relations, Public Relations 	<ul style="list-style-type: none"> ➤ Plan Tested, Documented, Reviewed

Service Levels

Issue Area	Key Goals	Success Criteria
Service Requests	<ul style="list-style-type: none"> • Reduce Service Purchase Wait to Two Months even Without Budget Assistance • Distribute Member Annual Statements by November 1 	<ul style="list-style-type: none"> ➤ Wait Time Reduced to Three Months ➤ Annual Statements Mailed by November 1
Information Technology Projects	<ul style="list-style-type: none"> • Review Status of Projects • Review Tactical and Strategic Directions • Evaluate Future Options • Proceed with Implementation or Other Solutions 	<ul style="list-style-type: none"> ➤ Review Committee Concludes ➤ Conclusions Documented ➤ Decisions Implemented
External Relationships	<ul style="list-style-type: none"> • Maintain / Enhance Relationships With Related Executive Branch Agencies, the Legislature, Employers, 	<ul style="list-style-type: none"> ➤ Trustee's Discretion

	Other Entities	
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Mr. Polen requested the proposed White Paper for the Plan be included in the 2005 Goals.

Motion: Mr. Karl Polen moved to approve the ASRS Objectives as amended by the Board for the 2005 calendar year.

Ms. Anne Mariucci seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action with Respect to the Hiring of a Deputy Director, Assistant Director, or Other Position at the Discretion of the Director in the External Affairs Division (EAD) of the ASRS

Mr. Matson requested that the Board authorize the recruitment for the position in EAD.

Motion: Ms. Charlotte Borchert moved to authorize the ASRS Director to proceed with the hiring process for Deputy Director, Assistant Director, or other position in the External Affairs Division.

Mr. Jaime Gutierrez seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

8. Presentation, Discussion and Appropriate Action with Respect to the Securities Litigation Policy and Procedure

Mr. Matson stated that historically, the ASRS has not initiated legal action but has received the benefit of being a passive participating class action litigation member. The ASRS custodian bank is responsible for the monitoring, accounting and reporting regarding class action litigation proceeds for securities held in ASRS portfolios.

Though a process currently exists for class action litigation matters, the ASRS does not possess a Board approved policy and procedure which formalizes the roles and responsibilities of all involved parties as it specifically relates to engaging in private action or accepting the role as lead plaintiff. Approving a policy and procedure is prudent and will codify the process and infrastructure necessary to expeditiously implement Board directives intended to protect the ASRS' financial interests.

The primary characteristics of the policy and procedure include:

- Improve the ASRS portfolio(s) review process by contracting with one or more external legal counsel

1. Monitor ASRS holdings and evaluate all cases in which the ASRS is a possible member and quantify the estimated impact (losses) sustained, and
 2. Evaluate whether the ASRS has sufficient losses to qualify and accept the role as a lead plaintiff or take private action, and
 3. Work with the ASRS and Arizona Attorney General's office to represent the ASRS as a lead plaintiff or taking private legal action.
- Establish a Securities Litigation Oversight Committee (SLOC) consisting of the Director, CIO, the Chair of the Investment Committee, or his/her designee, as voting members, and an Arizona Assistant Attorney General as an advisory member primarily responsible for reviewing recommendations from external legal counsel and, as appropriate, for making recommendations to the Board for approval to accept lead plaintiff role, pursue private action and accept related settlement of claims.
 - Define the essential required approvals:
 1. Hiring of securities litigation legal counsel requires the approval by the Board and Arizona Attorney General's Office,
 2. Pursuing lead plaintiff, take private action and accept settlement of claims requires the approval by the Board and Arizona Attorney General's office.

Motion: Mr. Jim Bruner moved to approve the ASRS Policy & Procedure which outlines the roles and responsibilities of the ASRS with respect to securities litigation.

Mr. Steven Zeman seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

9. Presentation, Discussion and Appropriate Action with Respect to Review of the Governance Handbook

Mr. Matson summarized the following seven key themes from the Governance Handbook and provided the ASRS Board with suggested changes to update the handbook.

1. The Board is policy oriented.
2. The Board determines standing and Ad Hoc Committees.
3. Trustees are fiduciaries.
4. The Director may delegate duties and responsibilities throughout the agency or to external third parties.
5. The Director is responsible for the leadership of the agency.
6. The Chairperson is responsible for leadership of the Board
7. Annual Evaluation of individual Trustees and the Board once a year.

Dr. Meredith suggested combining the External Affairs and Operations Committee, due to the reduction of meetings throughout the year.

Ms. Borchers is concerned with the time constraints if both committees are combined. She suggested keeping the three standing committees for another year to determine the effectiveness of the committees.

Ms. Mariucci suggested that the word "Review" be removed from the title of all the Committees.

Motion: Mr. Jim Bruner moved to approve the discussed changes and amendments to the ASRS Board Governance Handbook.

Mr. Michael Townsend seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

10. Presentation, Discussion and Appropriate Action with Respect to Board Governance Evaluations

- A. Trustees' 2004 Self Evaluation
- B. Board Evaluation

Dr. Meredith stated that according to the Board Governance Handbook, Section K; Board Performance Evaluation, the Board conducts an annual Self Evaluation and Overall Board Evaluation.

He asked the Board Trustees to complete the self evaluation prior to the February Board meeting. The completion of the self evaluation is to assist the Trustees with the Overall Board Evaluation which will be scheduled for February 18, 2005. The self-evaluation form does not need to be submitted.

Dr. Meredith asked the Board Trustees to complete the Overall Board Evaluation form and return it to him by the third week in January.

11. Presentation, Discussion and Appropriate Action Regarding International Equity Managers/Asset Class Review

Mr. Gary Dokes, Chief Investment Officer, requested that Bank of Ireland (BIAM) and Capital Guardian Trust Company (Capital) be terminated based on 1) organizational issues related infrastructure concerns at Capital and personnel departures at BIAM; 2) poor historical performance records for both managers; and 3) a lack of confidence in the managers' ability to add value moving forward.

The inception dates, portfolios' market value, and investment management fees are included in the table below:

Manager	Inception Dates	Portfolio (\$mil)	Fee	# Holdings
BIAM	09/30/98	370.4	34	87
Capital	06/30/92	803.8	40	213

Total		1,174.2		
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As of November 22, 2004.

Although the inception-to-date performance is positive, both portfolios have experienced short- and intermediate-term underperformance relative to the EAFE index and the universe median. Performance for BIAM for the 5-year period is also unsatisfactory.

The performance of both portfolios has suffered primarily due to 1) the managers' concentration in higher quality, larger capitalized issues relative to the benchmark (lower quality issues have outperformed higher quality issues); and 2) poor issue selection (most notably for BIAM).

Manager	Excess Return ¹ (bps)			
	1-Year	3-Year	5-Year	Inception
BIAM	-312	-423	-7	13
Capital	-675	-159	57	210

¹ Benchmark: MSCI EAFE; performance through October 31, 2004.

Capital has experienced significant growth in assets under management over the past several years. Mercer Investment Consulting noted a concern regarding Capital's unwillingness to close their international equity strategy to new business, a move taken by many managers as a precautionary measure relative to infrastructure constraints.

In September 2004, four key BIAM investment professionals left the firm. The ASRS Investment Management Division and Mercer consider this development as a meaningful drain to BIAM's senior portfolio talent pool. Over the past several quarters, BIAM lost assets as a result of terminations by clients due to concerns regarding portfolio construction, risk management, and performance issues.

Motion: Mr. Lawrence Trachtenberg moved to authorize termination of Bank of Ireland Asset Management and Capital Guardian Trust Company, International Equity Managers.

And

Move to appoint Barclays Global Investors (BGI) as an interim ASRS International Equity Manager and transition approximately \$1.2 billion in assets from Bank of Ireland Asset Management's and Capital Guardian Trust Company's portfolios to BGI's International (EAFE) Index Equity Fund to be managed until replacement active managers are selected.

And

Move to authorize the ASRS Investment Management Division and R.V. Kuhns & Associates to conduct an International Equity Manager search and recommend to the ASRS Board replacement Active International Equity Managers AND conduct a comprehensive review of the ASRS International Asset Class.

Mr. Steven Zeman seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

12. Presentation, Discussion and Appropriate Action Regarding ASRS U.S. Equity Mid-Cap Managers/Asset Class Review

Mr. Dokes and Mr. Terry Dennison, Principal, Mercer Investment Consulting, provided a review of the U.S. Mid-Cap Managers/Asset Class Review. Mr. Dokes stated that the ASRS has an allocation of five percent in Mid-Cap equities. The portfolios are managed by eight managers, three passive, two of which are managed internally, and five active. The average fee is 23 basis points. Mr. Dennison summarized each Mid-Cap manager.

Franklin Portfolio Associates' performance is favorable and it places above the benchmark and the universe median for the quarter, 1-year, and since inception periods. Mercer rates this product A (above average probability of outperformance).

Wellington's performance places above the index for the quarter and 1-year. However, performance is below the index inception-to-date. Wellington's performance places above the universe median for the quarter, but below the median for the 1-year and inception-to-date periods. Mercer rates this product A (above average probability of outperformance).

Forstmann-Leff's recent performance has improved. The 1-year performance is above the index and the universe median. However, performance is below the index for inception-to-date period. The portfolio has experienced intermittent underperformance due to positions in cyclical stocks. Tracking error is high relative to other ASRS Mid-Cap active managers. Mercer rates this product A- (above-average probability of outperformance).

Frontier's performance has improved as the return for the 1-year period is above the index and near the universe median. However, performance is below the index and the universe median for the inception-to-date period. Mercer rates this product A (above average probability of outperformance).

Cramer Rosenthal McGlynn's performance is superior relative to the index. The portfolio underperformed the index for the third quarter. Performance is driven primarily by stock selection. Mercer rates this product A (above average probability of outperformance).

State Street Global Advisors (SSgA) is tracking closely to the index. Mercer rates this product A (above average probability of outperformance).

The ASRS E3 portfolio is tracking the S&P Mid-Cap Growth index for the year-to-date period. The portfolio has outperformed the index for the 1-year, 3-years, and inception-to-date periods. This outperformance is primarily due to favorable stock trades around index changes and cash equitization using S&P 400 Mid-Cap futures.

The ASRS E4 portfolio is tracking the S&P Mid-Cap Value index for the third quarter. The portfolio has slightly underperformed the index on an inception-to-date basis. Underperformance is primarily due to cash equitization using S&P 400 Mid-Cap futures.

13. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance Overview for the Period Ending September 2004

Mr. Dennison presented an economic and market review and reported on the total fund for the period ending September 30, 2004.

	Quarter	1 Year	3 Years	5 Years	Inception
Total Fund	-0.4%	13.1%	6.8%	3.0%	10.8%
Benchmark*	-0.2	12.3	5.9	1.7	9.1
RM Public Funds Median	0.7	13.8	7.9	4.7	
Percentile Ranking	97	76	87	97	

* Interim Benchmark of 56% S&P 500/28% LB Aggregate/16% EAFE, which incorporates a proration of 6% real estate.

14. Director's Report

Mr. Matson commented on three items. The ASRS completed the first phase of the Agency Wide Continuation Plan Test. Four items were tested; 1) telephone alert roster, 2) relocation of the ASRS Web-site, 3) restoration of the PERIS database and re-running of November checks, and 4) selected procurement initiatives. ASRS staff has rated this test run as a B. The ASRS will continue to test the Agency wide Continuation Plan over the next two years. The Information Technology Plan series of modules have been tested.

Mr. Matson congratulated Mr. Fred Stork, Assistant Attorney General, on his upcoming retirement. Mr. Stork has been practicing law for 40 years, 37 of those years with the Attorney General's Office. He has served with the ASRS for eleven years. He is retiring effective December 31, 2004. Mr. Matson stated that it was both a personal and professional honor to have served with Mr. Stork.

15. Possible Presentation and Discussion Regarding Board Committee Updates

Mr. Gutierrez, Chairperson, External Affairs Committee, stated the Committee does not have a meeting scheduled during January 2005.

Mr. Trachtenberg, Chairperson, Investment Committee, stated there will be a Committee meeting in February. The Committee will meet every other month in 2005.

Ms. Borchert, Chairperson, Operations Committee, stated that the next OC meeting will be held on January 27, 2005.

16. Board Requests for Agenda Items

None

17. Call to the Public

None.

18. The next ASRS Board meeting is scheduled for Friday, February 18 , 2005, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

19. Adjournment of the ASRS Board

Dr. Meredith adjourned the December 17, 2004, Board meeting at 11:02 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Erica Romero, Secretary

Date

Paul Matson, Director

Date